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IN THE

Supreme Court of the United States

OCTOBER TERM, 1970.

No. 1612

POLORON PRODUCTS, INC.,
Petitioner,

vs.

BELA SEATING COMPANY, INC.,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

Petitioner, Poloron Products, Inc., prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Seventh Circuit entered January 25, 1971.

OPINIONS BELOW.

The Opinion of the Court of Appeals is reported at..... F. 2d ....., and 168 U. S. P. Q. 548 and appears in Appendix to this Petition, commencing at page 1a.

The Findings of Fact and Conclusions of Law entered by the United States District Court for the Northern District of Illinois, Eastern Division are reported at 297 F. Supp. 489 and 160 U. S. P. Q. 646, and the portions thereof relevant to the Questions Presented for Review by this Petition appear in the Appendix hereto, commencing at page 13a.

JURISDICTION OF THIS COURT.

The judgment of the United States Court of Appeals for the Seventh Circuit was entered on January 25, 1971.

Jurisdiction of this Court is invoked under Title 28, § 1254(1).

QUESTIONS PRESENTED FOR REVIEW.

1. Is it a "misuse or illegal extension of the patent right", for a patent owner-licensor to impose restrictive conditions on itself and its licensees (present and prospective) limiting each to specific forms or designs of the patented device that each will be permitted to make or sell?
2. Is it an "unfair method of competition", condemned as unlawful by United States Statute, and hence a "patent misuse", for a patent owner-licensor to seek to discriminate in the royalty rates charged to undifferentiable competitors under the patent?

CONSTITUTIONAL PROVISION AND STATUTES INVOLVED.

The Constitutional provision and statutes involved are:

1. CONSTITUTION OF THE UNITED STATES, Article I, Section 8:

"The Congress shall have Power • • •

"To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and

Inventors the exclusive Right to their respective Writings and Discoveries; * * *"

2. THE PATENT ACT, 35 U. S. Code, Section 154:

"Every patent shall contain . . . a grant to the patentee . . . of the right to exclude others from making, using, or selling the invention throughout the United States . . ."

3. THE PATENT ACT, 35 U. S. Code, Section 283:

"The several courts having jurisdiction of the cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."

4. THE PATENT ACT, 35 U. S. Code, Section 271(d):

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement."

5. THE FEDERAL TRADE COMMISSION ACT, 15 U. S. Code, Section 45(a)(1):

"Unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are declared unlawful."

STATEMENT OF THE CASE.

The facts relevant to the Questions Presented for Review by this Petition are as follows:

This litigation was commenced on October 13, 1965 by the respondent, Bela Seating Company, Inc. (Bela), against petitioner (Poloron), charging infringement of U. S. Patent No. 2,954,073 entitled "Folding Tablet Arm Chair", and seeking an award of damages and the grant of injunctive relief.

Prior to suing petitioner the respondent had granted non-exclusive licenses under the patent in suit to two of petitioner's competitors, namely Clarin Manufacturing Company (Clarin) and Hampden Specialty Products Corporation (Hampden).

The license to Clarin was royalty-free, stemming from a cross-licensing arrangement entered into in settlement of a lawsuit by Clarin charging Bela with infringement of a Clarin patent on a folding tablet arm chair. The Bela folding tablet arm chair that was involved in the *Clarin* v. *Bela* lawsuit is the one that is the subject of patent No. 2,954,073 that has been asserted herein against the petitioner.

The license to Hampden under patent No. 2,954,073 called for payment by Hampden of a royalty of 17½ cents per chair.

Respondent's license to Hampden includes the following provision:

> "3. Each of the parties hereto agree that the parties, respectively, shall utilize their own designs and neither shall manufacture or market Tablet Armchairs

> embodying the licensed inventions which are identical in design to those being manufactured by the other party hereto." (App. Vol. II, p. 205).

An identical provision is found as Par. 3 in a separate license agreement entered into between Clarin and Hampden (App. Vol. II, p. 67) under the same Clarin patent that had been asserted against Bela. In the Bela-Clarin cross-licensing agreement, the two parties each licensed the other under their respective patents to make and sell patented chairs, limited however to "but not of substantially identical design" (App. Vol. II, p. 279).

Promptly after Poloron learned of Hampden's non-exclusive license under the patent in suit, it sought to obviate further litigation expense and offered on February 7, 1967 to take a similar license under the same terms as Hampden's (App. Vol. II, pp. 249-250). This offer was at first refused by Bela (App. Vol. II, p. 251).[1] Later, on March 16, 1967, Bela offered Poloron a license calling for a royalty rate of $1.60 per chair (App. Vol. II, p. 254), and reduced the royalty offer to 75¢ per chair on June 13, 1968 shortly before trial (App. Vol. II, p. 261).

The offer by Bela to Poloron calling for a royalty rate of 75¢ per chair was conditioned on the requirement (App. Vol. II, p. 261):

> "... *provided* that the chairs manufactured by Poloron shall be the same as or similar to the chairs currently manufactured by it."

One of Petitioner's positions in the Courts below was that, under "principles of equity" prescribed by 35 U. S. C.

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1. The reasons given at a deposition of Bela's president, taken on February 15, 1967, for refusal to grant Poloron a license included Bela's belief that there was sufficient licensed capacity to fill the needs of the industry, and Bela's desire not to have another competitor in the field (App. Vol. I, pp. 228-229).

§ 283 and by established legal authority,[2] injunctive relief should be withheld from respondent because of "patent misuse" particularized as:

> (a) illegal extension of the patent right and unreasonable restraint on competition, intended and/or resulting from contractual constraints on respective chair designs, as set out in the patent licenses entered into by Bela with each of Hampden and Clarin and demanded of Poloron;
>
> (b) unlawful and unreasonable discrimination in royalty rates sought from, or charged to, undifferentiable competitors (Poloron and Hampden) under the patent.

The trial court found the patent in suit valid and infringed. As to petitioner's charges of "patent misuse," the trial court found that respondent has:

> ". . . the right to limit its licensees to a specific form or forms of the invention, and to agree itself to forego manufacture of a specific form or forms of the invention" (Finding 103, 17a, *infra*),

and concluded that:

> ". . . Plaintiff clearly had the right to restrict Hampden to the manufacture of chairs of Hampden's own design, and also to restrict defendant Poloron, if the latter accepted a license, to chairs which are 'the same as or similar to the chairs currently manufactured by it.' " (Conclusion 39, 21a, *infra*).

The trial court also found that respondent considered it a mistake to have granted the Hampden license at such a low royalty rate (Finding 100, 16a, *infra*), that it would be economically deleterious to Bela's business to grant Poloron a license at the same 17½ cents per chair royalty rate granted to Hampden (Finding 101, 16a, *infra*), and

2. *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 86 L. Ed. 363 (1942) and cases cited therein.

that forcing Bela to grant a license to Poloron at the Hampden royalty rate "would effectively be to create a system of compulsory licensing" (Finding 102, 17a, *infra*). The trial court then concluded that:

> "A patent owner is not required to grant licenses to all comers at equal rates and terms. He may select or reject prospective licensees and prefer one over another for considerations within his discretion." (Conclusion 37, 21a, *infra.*)

The trial court concluded that Bela was entitled to a permanent injunction and an accounting (Conclusions 48 and 49, 23a, *infra*).

The Court of Appeals for the Seventh Circuit affirmed the District Court's rulings on "Patent Misuse" at 9a-12a, *infra.*

REASONS FOR GRANTING THE WRIT.

A. As to Question 1.

The statutory grant of the patent right is merely ". . . the right to exclude others from making, using or selling the invention", 35 U. S. C. § 154.

To protect the rights of the public from abuse of the patent right, the courts developed the doctrine of "patent misuse". One principal form of "patent misuse", consistently condemned by this Court, is "extension of the patent right".

This condemnation of "extension of the patent right", as may be attained through licensing others under the patent right, has been formalized by this Court's broad pronouncements:

> "The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use." *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, 666; 88 L. Ed. 376, 381 (1944).

and

> "In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant, *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, ante 363, 62 S. Ct. 402, the particular form or method by which the monopoly is sought to be extended is immaterial." *United States* v. *Univis Lens Co., Inc.*, 316 U. S. 241, 251; 86 L. Ed. 1408, 1414 (1942).

Following this Court's generalized rule on "patent misuse" as defined in *Mercoid, supra,* the Court of Appeals of the 9th Circuit condemned all restrictions that a patentee-licensor would agree to in limiting *his own* freedom of action.

In *McCullough* v. *Kammerer Corp.*, 166 F. 2d 759 (9th Cir. 1948) three separate patent misuses were found flowing from restraints in a patent license. One of the specific misuses related to the Licensor agreeing "... not to manufacture, sell, rent, license, use, or in any way do business with the device or devices covered by this agreement ..." (Par. 12 reported at 166 F. 2d 760). The Court therein held, at p. 762:

> "With regard to the licensor's agreement ... *excluding itself* from making, using, renting or licensing competitive cutters, such a patent monopoly extension by the *agreement* of the licensor has the same prejudice to the public as the restricting agreement of the licensee." [Emphasis supplied.]

and later, at p. 762:

> "... In the public interest the licensor must not bind himself not to make, use and vend articles covered by the terms of the patent. ..."[3]

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3. Recognition of the self-imposed restriction, limiting the patentee's own freedom of action, as being beyond the scope of any patent protection and to be judged by anti-trust standards is confirmed in "Report of the Attorney General's National Committee to Study the Anti-trust Laws" published March 31, 1955, at p. 238, sub-paragraph "d. Restrictions on the Patentee".

Since "patent misuse" and "extension of the patent right" were Court-developed doctrines, they were not defined by statute. However, Congress recognized the scope and power of the doctrines by legislating in 1952, in 35 U. S. C. § 271(d), certain limited exceptions to the doctrines ". . . of misuse or illegal extension of the patent right . . .".

In view of the foregoing, and by its sustaining the holding of the District Court that the patentee-licensor

> ". . . had the right to impose these conditions on itself and its licensees as a reasonable step to maintain individuality between manufacturers with respect to design of their chairs" (11a, *infra*),

it is evident that the opinion of the Seventh Circuit Court of Appeals, for which issuance of writ of certiorari is sought, is not only erroneous in law but

> (a) is in direct conflict with the general rule of law established by this Court condemning the attaching of conditions to the use of a patent license, as constituting an "extension of the patent right",
>
> (b) is in direct conflict with an earlier decision of the Court of Appeals for the 9th Circuit on the issue of whether a licensee may properly limit its own freedom of action under its patent,
>
> (c) is in direct conflict with decisions, based upon public policy as enunciated by this Court, which limit the granted monopoly right of a patent strictly to the terms of the statutory grant, and
>
> (d) sets a dangerous precedent, that has foreseeable far-reaching and insidious consequences, and requires prompt corrective action by this Court to prevent erosion of the well-established body of law that condemns attempts by licensors to attach conditions to the use of a patent license.

For these compelling reasons, as discussed separately in detail hereinafter, the petition for issuance of writ of certiorari should be granted.

(a) The Direct Conflict With This Court's Condemnation of Conditions Upon Use of a Patent as Constituting an "Extension of the Patent Right."

This Court has, in *Mercoid, supra,* broadly condemned use of licenses and licensing policy to enlarge the monopoly of a patent "by the expedient of attaching conditions to its use". This Court's ruling in *Mercoid, supra,* does not draw any distinction between "conditions" that are "good" or "bad". *All* conditions attached to the use of a patent, as provided for by the terms of a license, are condemned in *Mercoid, supra.*

Although certain specific exceptions to this sweeping policy were carved out by legislative action of Congress in enacting 35 U. S. C. § 271(d) in 1952, the thrust of this Court's rulings, underpinned by public policy considerations and by a long line of decisions, has remained intact and respected by the Courts of Appeal of the various Federal Circuits until promulgation of the decision in the case below.

The Seventh Circuit Court's Opinion in the case below concedes that the license agreements of the patent licensor "impose . . . conditions on itself and its licensees . . ." and then goes on to note that the "conditions" operate to "restrict the licensee's manufacture of the patented item to a specific use or design". There is no finding that the "conditions" imposed by the licensor are permitted by the terms of 35 U. S. C. § 271(d).

On its face, the ruling by the Court of Appeals for the Seventh Circuit is in direct conflict with this Court's ruling in *Mercoid, supra,* and should be reversed. Although *Mercoid, supra,* was heavily relied upon by petitioner before the Court of Appeals for the Seventh Circuit, it is strange that the Seventh Circuit's opinion totally ignores that decision and its ruling.

To support its ruling that "A licensor may restrict the licensee's manufacture of the patented item to a specific use or design.", the Seventh Circuit Court of Appeals turned to a single authority, *Vulcan Mfg. Co.* v. *Maytag Co.*, 73 F. 2d 136 (8th Cir. 1934).

But it should be evident that *Vulcan* no longer constitutes viable authority since:

(1) the thrust of its holding has been effectively reversed or overruled by the more-recent decisions of this Court in *Mercoid, supra,* and others; and

(2) *Vulcan, supra,* and the point of law[4] therefrom, that is relied upon by the Seventh Circuit Court of Appeals, are highly suspect in view of the grant of certiorari by this Court at 293 U. S. 553, after which this Court was effectively precluded from voicing its views on the correctness of the ruling by the Eighth Circuit by a dismissal by petitioner at 294 U. S. 734.

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4. Point (1) raised by the Petition for Writ of Certiorari, No. 557 in October Term, 1934, that was granted by this Court at 293 U. S. 553 in *Vulcan, supra,* reads:

(1) Can the owner of patents, in view of the provisions of the Sherman Act, the Clayton Act and the patent laws, as well as the general invalidity of contracts creating monopolies and stifling competition, grant a license to manufacture and sell the patented device as an integral part of a non-patented machine (power-operated washing machine) and lawfully impose a restriction as to the type of the power-operated washing machine on which the patented device may be used, or so use such restriction, where the necessary *effect* and the active *purpose* of such restriction and its *use* is to enable the patent owner to prevent competition with it in the manufacture and sale of the particular type washing machine it chooses to manufacture and sell?

(b) The Direct Conflict with the Court of Appeals for the Ninth Circuit.

McCullough v. *Kammerer Corp.*, 166 F. 2d 759 (9th Cir. 1948), was relied upon by Petitioner's briefs to the Court of Appeals for the Seventh Circuit for the proposition of law that:

> "In the public interest the licensor must not bind himself not to make, use and vend articles covered by the terms of the patent . . ."

In the case below, Bela had agreed to limit its conduct under the patent in suit by agreeing to utilize its own design and *not* to "manufacture or market Tablet Armchairs embodying the licensed inventions which are identical in design to those being manufactured by the other party hereto."

The District Court and Court of Appeals below both noted that Bela had imposed "conditions on itself", but refused to condemn such as a misuse, although the same had earlied been condemned as a misuse in *McCullough, supra.*

This obvious direct conflict on an important issue of law having general application to patent licenses and existing between Courts of Appeal of two Circuits can be resolved only by decision of this Court.

(c) The Direct Conflict with Public Policy Which Limits the Patent Monopoly Strictly to the Terms of the Statutory Grant.

In *United States* v. *Univis Lens Co. supra,* this Court, in observing the doctrine that "public policy which limits the granted monopoly strictly to the terms of the statutory grant", stated that ". . . the particular form or method by which the monopoly is sought to be extended is immaterial".

As noted earlier, the statutory grant of a patent under 35 U. S. C. § 154 is merely the right to exclude others from making, using, or selling the invention.

The courts below, however, found that Bela "had the *right* to impose these conditions . . . as a reasonable step to maintain individuality between manufacturers with respect to design of their chairs" (11a, *infra*, emphasis added).

It should be evident that the statutory grant of a *right* to exclude others under 35 U. S. C. § 154 is one thing, while the *right* to "impose conditions" or to "maintain individuality between manufacturers" is wholly different and clearly not within the terms of the statutory grant.

Since public policy dictates that the patent monopoly be limited "strictly to the terms of the statutory grant", *Univis Lens, supra,* the decision of the Seventh Circuit Court of Appeals below is in direct conflict with public policy when it holds or approves a holding, that respondent had an additional "right . . . to impose these conditions . . . to maintain individuality between manufacturers with respect to design of their chairs".

Assuming for the moment that both the respondent and the Court of Appeals for the Seventh Circuit sincerely believe that maintenance of "individuality between manufacturers with respect to design of their chairs" is a "desireable" or "good" end to be pursued by the business community, nevertheless we find that this Court's decisions in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225, 11 L. ed. 2d 661 (1964), and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234, 11 L. ed. 2d 669 (1964) establish that such ends are *not* within the Federal scheme of protection afforded the business community. The patent owner is granted *only* his statutory right to exclude others, and his waiver of this right is the essence of a license under the

patent. Since the grant of a license serves only to free the licensee from the patentee's exercise of the statutory grant, the patent owner cannot use the license of the patent as a means to limit the most direct competition that may arise, such as when one manufacturer copies directly from another manufacturer.

Accordingly this petition for writ of certiorari should be granted so that this Court may correct that holding by the Court of Appeals of the Seventh Circuit which is directly contrary to public policy dictates which limit a patent monopoly "strictly to the terms of the statutory grant".

(d) The Setting of a Dangerous Precedent.

The District Court and the Court of Appeals below have both approved a dangerous precedent by suggesting that there exists in the patentee a "right" to use what appears to be "a reasonable step" by imposing certain conditions in the licensing of patent rights (11a, *infra*).

The ignoring of the well-established rulings of this Court which condemn the attaching of conditions to the use of a licensed patent, and the ignoring of a ruling of the 9th Circuit Court of Appeals, by finding the attached conditions by patentee *on itself and its licensees* to be "a reasonable step", amounts to the 7th Circuit Court of Appeals setting a dangerous precedent that has easily foreseeable, far-reaching and insidious consequences.

This Court has carefully preserved the concept of balancing the rights of the public against the unbridled power of a patent monopoly, and the rulings that evolved were carefully thought out. The introduction of the concept of "a reasonable step" has a seductively simple ring to it, but what is "reasonable" has a way of being stretched by skillful advocates to a point where avoidance of competition is the desirable end of doing business in a field where

patent rights have been granted, regardless of whether or not the patents justify domination of the constructions that are available to the businessmen.

Thus, and for example, in *United States* v. *Associated Patents, Inc.*, 134 F. Supp. 74 (E. D. Mich. 1955) aff'd *per curiam, sub. nom. Mac Inv., Co.* v. *United States*, 350 U. S. 960, 100 L. ed. 834 (1956), a group of manufacturers had restricted use of patented subject matter by issuance of multiple written licenses[5] so that the multiple licensees under the patent were non-competitive with each other. The District Court found that such an arrangement constituted an antitrust violation.

The ruling by the Court of Appeals below is in direct conflict with said *API* decision, *supra*, since the net effect of the licenses granted by respondent is that each of the three present manufacturers and licensees, Bela, Clarin and Hampden make different devices, so that no precisely competitive constructions exist.

This loophole, and the dangerous precedent now created by the decision below, require corrective action by this Court, wherefore this Petition should be granted.

B. As to Question 2.

The issue of whether injunctive relief under 35 U. S. C. § 283 should be "withheld from a patent owner who seeks to discriminate in royalty rates charged to undifferentiable competitors under the patent" was one of first impression to the Court of Appeals for the Seventh Circuit (9a, *infra*).

This issue involving discriminatory royalty rates is one that is of widespread and general importance to the entire

5. The Court of Appeals below purports to distinguish the instant case from *API* by pointing to another violation in *API* stated to be "the general unwritten agreement not to compete. . .".

Patent Bar, and involves the FTC Act as well as patent law considerations. It first appeared as a controlling legal issue in *Laitram* v. *King Crab, Inc.*, 244 F. Supp. 9 (D. C. Alaska, 1965), and later appeared as an issue under the FTC Act in *La Peyre* v. *Federal Trade Commission*, 366 F. 2d 117 (5th Cir. 1966). It also appears in an extensive footnote No. 10 in *Carter-Wallace, Inc.* v. *United States*, 167 U. S. P. Q. 667, 673 (Ct. of Claims, 1970) where the correctness of *Laitram, supra*, is discussed.

The Court of Appeals for the Seventh Circuit rejected respondent's reliance upon the District Court decision in *Allied Research Prods. Inc.* v. *Heatbath Corp.*, 300 F. Supp. 656 (N. D. Ill. 1969), where "unfair discrimination" was the basis for denying a patent owner injunctive relief, and reliance upon the District Court decision in *Laitram Corp.* v. *King Crab, Inc.*, 244 F. Supp. 9 (D. C. Alaska, 1965) where discriminatory rental rates to patent licensees were held to constitute a "patent misuse". Instead, the Court of Appeals ruled that respondent's refusal to license petitioner on the same terms as respondent had granted to petitioner's competitor, Hampden, did not "offend the anti-trust laws" (10a, *infra*).[6]

This ruling by the Court of Appeals for the Seventh Circuit requires granting of this Petition for Writ of Certiorari for the reasons that on an issue of first impression it is not only contrary to decisions of District Courts, but also:

(a) it failed to consider the unlawfulness of the unfair methods of competition condemned by the FTC Act, 15 U. S. C. § 45, and thus, is in direct conflict with the Court of Appeals for the 5th Circuit on the ques-

6. The Seventh Circuit Court of Appeals apparently assumed that "patent misuse" arises *only* from offending the antitrust laws, and did not consider the FTC Act, 15 U. S. C. § 45, which declares unfair methods of competition "unlawful".

tion of whether discriminatory rates charged for use of an invention under a patent constitutes unfair discrimination that has been declared unlawful by United States Statute; and

(b) it is in direct conflict with the general views of this Court that a patent may not be used to deter competition between rivals in the exploitation of their licenses.

Allied Research, supra, holds that where a patent owner refuses to license an accused "infringing" defendant but has granted a non-exclusive license to the defendant's competitor, then the refusal to license constitutes an "unfair discrimination" that precludes grant of injunctive relief under 35 U. S. C. § 283 until the misuse is purged. The District Court's decision is based on the principles of "public policy" and holds:

> "An owner of a patent cannot assert his right under the law and Constitution if such owner . . . refuses to license an applicant when it has already granted a license to the applicant's competitor."

Laitram, supra, holds that a patent owner who is guilty of misuse for granting licenses at "discriminatory" rental rates, must be denied relief until the misuse is purged.

The ruling by the Court of Appeals for the Seventh Circuit rejects the rulings in *Allied Research, supra* and *Laitram, supra.* But in rejecting *Allied Research's* reliance upon "unfair discrimination" as a basis for denial of equitable relief, the Seventh Circuit both failed to consider the import of 15 U. S. C. § 45 and moved into direct conflict with *LaPeyre et al.* v. *Federal Trade Commission,* 366 F. 2d 117 (5th Cir. 1966) wherein the 5th Circuit Court of Appeals held that charging discriminatory rates by rental for use of an invention under a patent was an unfair method of competition as proscribed by Section 5(a)(1) of the FTC Act, 15 U. S. C. § 45.

This conflict between the Seventh and Fifth Circuit Courts of Appeal must be resolved by this Court. Also, this Court must decide this important issue that appears to be recurring in recent years—namely, whether the patent right supports grant of licenses to undifferentiable competitors at discriminatory royalty rates.

Furthermore, the Seventh Circuit's ruling below appears to be in direct conflict with general holdings by this Court concerning deterrence of competition between rivals licensed under a patent. Thus, in *United States* v. *Paramount Pictures,* 334 U. S. 131, 144, 92 L. ed. 1260, 1286 (1948) this Court stated the broad principle:

> "* * * For a copyright may no more be used than a patent to deter competition between rivals in the exploitation of their licenses."

Can there be any doubt that as between the competitors, Hampden and petitioner Poloron, that competition is likely to be deterred by respondent herein charging a royalty rate to Hampden at 17½ cents per chair while Poloron is required to pay 75 cents or more per chair?

Hartford Empire Co. v. *United States,* 323 U. S. 386, 420, 89 L. ed. 322, 366 (1945) states the general view of this Court respecting patent licensing that a corporate patent owner has the right, acting alone

> ". . . to lease or sell patented machinery or license the use of patents, if it so elects, provided always that no discrimination be practiced and that no restrictive conditions be attached . . ."

Finally, this Court has long ago, in *Motion Picture Patents* case, 243 U. S. 502, 515, 61 L. ed. 871, 878 (1917) condemned the use of favoritism and oppression in the grant of patent licenses. This Court observed:

> "* * * The perfect instrument of favoritism and oppression which such a system of doing business, if

valid, would put into the control of the owner of such a patent, should make courts astute, if need be, to defeat its operation. If these restrictions were sustained, plainly the plaintiff might, for its own profit or that of its favorites, by the *obvious expedient of varying its royalty charge,* ruin anyone unfortunate enough to be dependent upon its confessedly important improvements for the doing of business." [Emphasis supplied.]

CONCLUSION.

This Court should issue the Writ of Certiorari and reverse the portion of the Opinion headed "III Patent Misuse", not alone to correct an injustice to the petitioner but to prevent approval by a Court of Appeals of conduct that this Court has heretofore held to constitute an improper extension of the patent right, and which Courts of Appeal of the 9th and 5th Circuits have held, respectively, to be against public policy and unlawful under a United States Statute.

Respectfully submitted,

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APPENDIX.

IN THE UNITED STATES COURT OF APPEALS
For the Seventh Circuit.

No. 17444 SEPTEMBER TERM, 1970 SEPTEMBER SESSION, 1970

BELA SEATING COMPANY, INC., *Plaintiff-Appellee,*

vs.

POLORON PRODUCTS, INC., *Defendant-Appellant.*

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

JANUARY 25, 1971

Before KNOCH, *Senior Circuit Judge*, KILEY and FAIRCHILD, *Circuit Judges.*

KILEY, *Circuit Judge.* This is a patent infringement suit, brought by Bela Seating Company, Inc. (Bela), with the customary defenses of invalidity and non-infringement filed by defendant Poloron Products, Inc. (Poloron). Poloron also filed a defense and a counter-claim both based upon alleged patent misuse in violation of antitrust laws. The district court concluded that Poloron had infringed eleven of eighteen claims of Junkunc Patent No. 2,954,073 in suit.[1] Judgment was for Bela, with a grant of injunctive relief and an order for com-

1. Issued in the name of Bela B. Junkunc and assigned January 1, 1965 to plaintiff Bela Seating Company, Inc.

pensatory damages. The court dismissed Poloron's counterclaim on the merits. Poloron has appealed. We affirm.

The patent in suit covers an inverted "Y-frame"[2] folding "tablet arm" chair. The patent has all the elements of the ordinary folding chair plus a movable tablet arm for use in writing and in folding. The tablet arm, when not in use, moves sideways from its writing position in front of the chair and pivots downward into an out-of-the-way position next to the front leg of the chair. When the chair is folded, the seat of the chair is raised and the tablet arm moves downward to a fully closed "lowermost" position in front of the chair. In unfolding, the tablet arm is lifted upward to its writing position and the seat opens cooperatively. Thus in both the folding and unfolding operations, the tablet arm moves cooperatively with the seat of the chair. The chair is clearly important for use by institutions such as schools, hotels and clubs. The three figures below picture the chair in an unfolded position with the tablet arm moved away and downward from the seat (Figure 1), a side view of the chair completely unfolded with the tablet arm ready for use (Figure 2), and a front view of the completely closed folded position of the chair and tablet arm (Figure 3):

2. In a "Y-frame" folding chair the front frame and the back legs of the chair form an inverted Y-shaped structure. In contrast, in an "X-frame" chair the front and rear legs cross to form an X-shape.

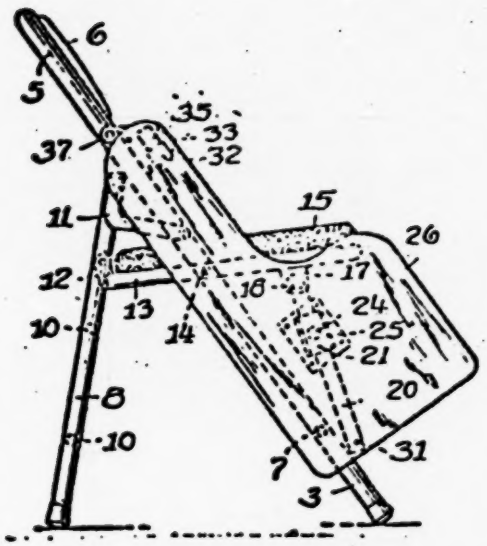

FIGURE 1

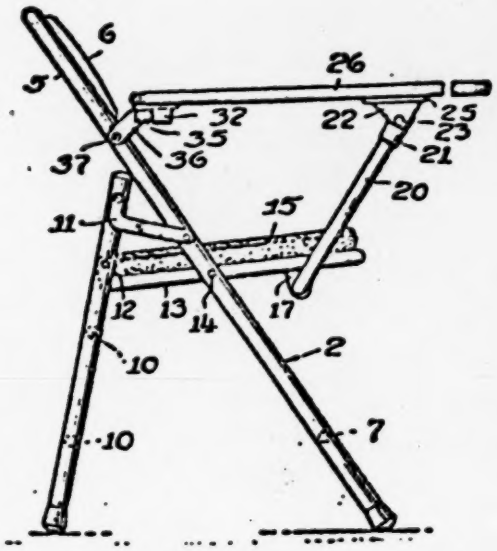

FIGURE 2

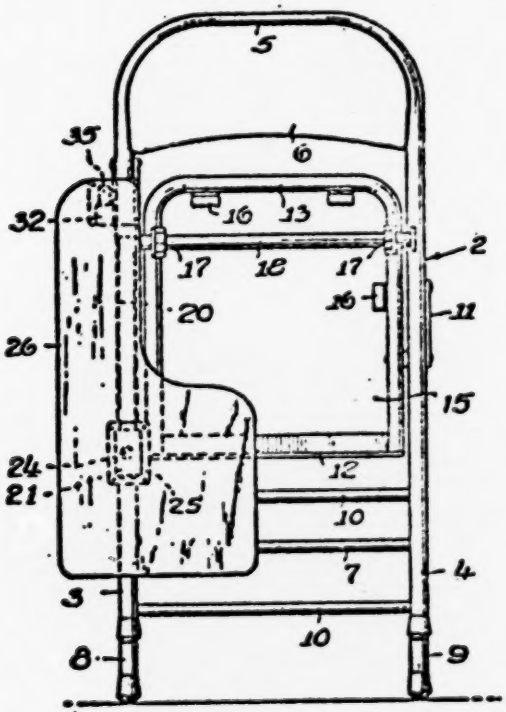

FIGURE 3

The district court found the patent valid, and that Poloron's accused chair read directly upon and infringed claims 1 through 6 and 14 of the Junkunc patent in suit; and that, under the doctrine of equivalency, Poloron infringed claims 7, 10, 12 and 15. Poloron does not directly challenge the conclusion of validity, but contends that the district court erred in finding infringement and also alleges several grounds on which the patent is said to be invalid and accordingly not entitled to patent monopoly protection. We shall treat *seriatim* the several grounds urged for invalidity.

I. VALIDITY

The court did not err, as Poloron argues, in failing to consider the "two principal prior art references" Poloron relied upon, and accordingly in failing to determine the scope and content of the prior art as required by the Supreme Court in *Graham* v. *John Deere Co.*, 383 U. S. 1, 17 (1965). The references are a prior art chair of Bela's (Bela 2070) and a 1952 catalog of Clarin Manufacturing Company, a competitor in the folding chair market, illustrating a Clarin chair. Both of these chairs were exhibits introduced into the record at the trial.

The record discloses, however, that neither the Bela 2070 chair nor the Clarin 1952 catalog chair was relied upon by Poloron as its "principal prior art references." They were not among the prior art references included in its § 282 notice sent to Bela before trial. And at trial Poloron relief upon exhibits "4-A to -G" and "DX-10," none of which included either of the two references.

Poloron's own expert admitted that Bela's 2070 chair is similar to the Adler and Supita chairs,[3] which were

3. The trial court found the Supita chair, unlike the patented and accused chairs, does not have a tablet arm which moves about a plurality of different axes, and which moves independently of the

specifically discussed in the district court's findings. And Clarin's catalog shows the same X-frame folding chair (in somewhat less detail) as that disclosed in the Clarin Patent No. 2,664,943,[4] which also was specifically discussed in the findings. The court did not err in failing to discuss the Bela 2070 and Clarin catalog chairs, or in failing to apply the standards of *John Deere Co.*

We find no merit in Poloron's related contention that had the trial court considered the Bela 2070 and Clarin catalog chairs it would have found that these two chairs, taken together, had all the "advantages" the court found in the chair in suit and that three structural differences between the chair in suit and the two prior art chairs can be found in the other prior art references before the district court. Suffice to say with respect to the first contention, the chair in suit is novel because it combines all the "advantages" of the prior art chairs in a single product which is "new and unobvious."[5] There is no claim that either of the two prior art chairs alone does so.

As to the second contention: the double pivot back support is not an element in the claims in suit and the

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chair seat. The court found that the Adler chair was very similar to the Supita chair and added nothing to the Supita patent.

The tablet arm on the non-patented Bela 2070 chair, like the Supita and Adler chairs, does not move independently of the chair seat and does not move about a plurality of different axes.

4. The trial court found that the Clarin No. 2,664,943 chair, unlike the chairs in suit, does not have a link pivotally connected to the seat or a tablet arm and seat which move cooperatively. The Clarin catalog pictures an X-frame folding arm chair with a tablet arm which, like the Clarin 2,664,943, moves independently of the seat but does not have a link pivotally connected to the seat and the tablet arm and seat are not capable of cooperative movement.

5. The trial court found: "Even though each of these elements, if taken separately, is not new or patentable, it is the combination of these elements which is new and unobvious, and which produces a new result in that a unique and highly efficient folding chair is produced." Finding 15. Poloron does not directly contest this finding.

releasable lock feature was held not to be infringed by the Poloron chair. The universal joint front support of the tablet arm is the main structural difference between this chair and the prior art, and this joint enables the tablet arm to move both cooperatively with, and independent of, the chair seat. Neither the Bela 2070 nor any prior art reference has the universal joint front support, and no prior art chair tablet arm is capable of both cooperative and independent movement.

The district court made extensive findings with respect to Moore patent No. 1,864,750. We are not persuaded by Poloron's specious argument that since there are clear differences between the Moore patent and the claim in suit, the extensive findings of the trial court indicate that claims 1 and 3 of the patent in suit violate 35 U. S. C. § 112 by failing to "particularly point out and distinctly claim the subject matter" of the invention. The district court probably considered the extensive findings necessary because Poloron's chief reliance for invalidity was on the Moore patent. This is shown by the fact that over 100 pages of transcript were devoted to a discussion of this prior art.

Bela's expert Cowie testified at the trial on the accepted technical terminology in the claims in suit. Poloron argues that the district court erred in relying on Cowie's testimony and that accordingly its patent lawyer-expert's testimony is uncontroverted. We have read Cowie's testimony and see no reason to disagree with the trial court's evaluation of Cowie's description of the structure and operation of a relatively simple folding chair. The court found Cowie qualified to testify in "ordinary mechanical or technical terms." Furthermore we do not find in Cowie's testimony "admissions" making out a prima facie case of anticipation by Moore of each feature of claim 1. We reject therefore the argument that claim 1 must be overbroad in being identified with the Moore patent which is basically and distinctly different from the patent in suit.

We see no substance to Poloron's argument that the Bela specifications do not comply with the requirement of 35 U. S. C. § 112 that they "set forth the best mode contemplated by the inventor of carrying out his invention." We do not read the specifications, the way Poloron does, as requiring the unfolding of the chair in suit by using the seat as a "driver." The specifications describe the movement of the assembly so as to arrive at the cooperative effect. No clear mention is made in the specifications that the seat is to be used as the driver member and the tablet arm as the driven member in unfolding the chair from the *completely* folded position. Moreover, the testimony at trial shows that the claims and drawings in the patent in suit disclose—to one skilled in the art—that the chair could not possibly be opened from the folded position by pushing forward on the chair seat. There was also testimony that the normal and recognized method of opening chairs with cooperative movement is to pull up on the tablet arm. Based on this testimony, the trial court found that it could be clear to anyone skilled in the art that the chair cannot unfold by using the seat as a driver.

The challenges of Poloron are ineffective against the district court's decision of validity.

II. INFRINGEMENT.

Poloron contends that the court erred in deciding that the accused chair infringed the patent in suit because three features of the Bela chair in suit are not found in the accused chair: (1) movement of the table arm and movement of the chair "to different positions simultaneously as a cooperative assembly;" (2) a "universal joint" as a support for the front end of the tablet arm, providing "universal pivotal movement" of the tablet arm

with respect to the supporting link; (3) joint structure which "supports" the tablet arm and "maintains" the arm in position when it is in use. As to (1), Poloron argues that the claimed "movement" requires use of the seat as the driver and that this operation is missing in the accused chair. However, we have shown above that the claims do not require use of the seat as driver. The court did not err in finding that the cooperative movement referred to in the claims was infringed by the accused chair.[6] With respect to (2), the patent in suit defines "universal pivotal movement" as movement of the parts of the joint structure "about different axes at the same time *or* at different times." (Emphasis added.) The district court had ample basis for finding that both chairs provide "universal pivotal movement" of the tablet arm: both tablet arms pivot outward, inward, downward and upward about axes with respect to the link connecting the seat and tablet arm. As to the "universal joint," both Bela's expert Cowie and Poloron's expert Pigott testified as to the meaning of "true universal joint" and discussed this technical term with reference to the joint supports in the patented chair and the accused chair. The district court was justified in finding that the joint structure of the accused chair —although not a true universal joint—is the mechanical equivalent of a universal joint. Finally, as to (3), the words "support" and "maintain" in the claims in suit do not refer to the locking feature which prevents the tablet arm from turning when pressure is applied to the outer edge, but rather to the tablet arm being held in its writing position when downward pressure is placed anywhere on its surface. One embodiment of the claims (Figures 17-21) does not have a locking feature, and one

6. Poloron's expert, Mr. Pigott, agreed with Bela's counsel's statement of the three criteria of "cooperative" movement of a tablet arm and seat of a folding chair, and admitted that the criteria were met by the normal closing of Poloron's accused chair.

claim requires that the pivotal connection at the front and rear of the tablet arm cooperate to support and maintain the arm. The rear pivotal support is not involved in the locking feature.

III. PATENT MISUSE.

After the patent in suit issued, Bela entered non-exclusive licensing and cross-licensing arrangements with Clarin Manufacturing Company (Clarin) and Hampden Specialty Products Corporation (Hampden), competitors of Poloron. The license granted to Clarin was royalty-free, and superseded a previous cross-license given to Clarin in settlement of a lawsuit brought by Clarin against Bela. The license granted to Hampden required payment of a royalty of 17½¢ per chair. Eventually Hampden became non-exclusive licensee of both Clarin and Bela.

After this litigation began, Poloron learned of the Bela non-exclusive license to Hampden and offered to take a similar license on the same terms as Hampden's in order to dispose of the litigation. Bela at first refused, but later offered a license with a royalty of $1.60 per chair, and reduced the royalty offer to 75¢ per chair shortly before trial.

Poloron poses the issue on this aspect of the appeal as one of first impression for this court: whether injunctive relief against future infringement should be "withheld from a patent owner who seeks to discriminate in royalty rates charged to undifferentiable competitors under the patent."

The Hampden 17½¢ per chair license was dated March 9, 1962, and the Clarin royalty-free license was dated September 4, 1964. Poloron made its request for a license on the same terms as the Hampden license in February, 1967. The court found that Bela regretted the unreasonably

low rate to Hampden, that the request in 1967 of the 1962 rate to Hampden would force on Bela a rate injurious to it, and that the 75¢ per chair rate was less than 7% of the price at which Poloron sells its chairs. The court concluded that Bela had no duty to grant Poloron's request for a license at the same rate given Hampden. We see no error in the conclusion. Where, as here, there were rational bases upon which Bela could refuse to grant Poloron a license on the same terms as it granted Hampden's license, there is no invidious discrimination so as to offend the anti-trust law. *See Extractol Process* v. *Hiram Walker & Sons,* 153 F. 2d 264 (7th Cir. 1946); *United States* v. *Huck Manufacturing Co.,* 227 F. Supp. 791, 804 (E. D. Mich. 1964), *aff'd.* 382 U. S. 197 (1965).

Poloron's reliance upon *Allied Research Products, Inc.* v. *Heatbath Corp.,* 300 F. Supp. 656 (N. D. Ill. 1969); and *Laitram Corp.* v. *King Crab, Inc.,* 244 F. Supp. 9 (D. C. Alaska 1965), is misplaced. In *Allied,* the court found "unfair discrimination" in plaintiffs' refusal of a license to defendants from plaintiffs "solely because of a personal feud between plaintiffs and defendants." No authority was cited for the court's conclusion. We do not decide what weight should be given this decision, but merely point out that there, unlike the case before us, no valid reasons were given for the refusal to license defendant. In *Laitram,* the district court found an abuse of monopoly power in that the plaintiff had substantially and unjustifiably injured competition in the shrimp canning industry by charging different royalty rates for the use of its patented machinery on the west coast from that in the Gulf of Mexico area. The district court in the case at bar found that Bela had sought a higher royalty rate from Poloron because it had determined that the earlier license rate was "unreasonably low;" there is no showing that Bela intended to deter competition with Poloron's competitors.

Hazeltine Research, Inc. v. *Zenith Radio Corp.*, 388 F. 2d 25 (7th Cir. 1967), is inapposite. There the district court held that defendant had violated the anti-trust laws by coercing Zenith to accept an unlawful package license or face litigation. We affirmed and modified the injunctive relief for Zenith so as to give it "the benefit only of the same royalty rates" as other Hazeltine licensees. Here the district court found no patent misuse and Poloron's contention is merely that the discriminatory rates charged different licensees is *per se* a patent misuse.

The cross-licensing agreements between Bela and Hampden and Clarin contain conditions that Bela and the others would manufacture "tablet arm chairs embodying the invention . . . but not of substantially identical design." Since Bela's patent does not cover design, Poloron argues that patent in suit was expanded so as to constitute an unlawful restraint on competition as to unpatented aspects of the chairs involved. The district court found that Bela had the right to impose these conditions on itself and its licensees as a reasonable step to maintain individuality between manufacturers with respect to design of their chairs.

We find no error in the court's conclusion. A licensor may restrict the licensee's manufacture of the patented item to a specific use or design. *See Vulcan Mfg. Co.* v. *Maytag Co.*, 73 F. 2d 136 (8th Cir. 1934).

McCullough v. *Kammerer Corp.*, 316 U. S. 241 (1942), [sic. 166 F. 2d 759 (9th Cir. 1948)] and *United States* v. *Associated Patents, Inc.*, 134 F. Supp. 74 (E. D. Mich. 1955) (*API*), relied on by Poloron, are of no aid to it. In *McCullough*, the licensor restricted the licensee from making competitive articles which fell outside the claims of the licensed patents. And in *API* one of the violations was that the members arrived at the general unwritten agreement not to compete in the manufacture of tools ir-

respective of whether or not the *API* patents were utilized. Clearly these were against the public interest in withdrawing both parties from the field of inventing or using the competitive devices. Unlike these cases, relied on by Poloron, the restrictions in the Bela agreements are limited to the manufacture of chairs covered by the claims of the patent in suit. The general rule favors the broadest freedom in the use or sale of rights under the patent law of the United States. *Bement & Sons* v. *National Harrow Co.*, 186 U. S. 70, 91 (1902). We see nothing in the conditions challenged which is an unreasonable exercise of Bela's patent rights or against the public interest.

The judgment is affirmed.

IN THE UNITED STATES DISTRICT COURT

CIVIL ACTION

• • (Caption No. 65—C—1702) • •

FINDINGS OF FACT AND CONCLUSIONS OF LAW.

FINDINGS OF FACT.

The Parties.

1. Plaintiff, Bela Seating Company, Inc. (Bela Seating), is an Illinois corporation having a place of business at 9505 South Prairie Avenue, Chicago, Illinois. Plaintiff is the successor-in-interst of J & J Tool & Machine Company, a sole proprietorship owned by Bela B. Junkunc. For purposes of convenience, both Bela Seating and J & J Tool & Machine Company are referred to in these Findings of Fact as "plaintiff."

2. Defendant, Poloron Products, Inc. (Poloron), is a New York corporation. Defendant has admitted that it has a regular and established place of business at 600 South Michigan Avenue, Chicago, Illinois. Acts of infringement, including sales of the accused chairs, have been committed in Chicago and elsewhere.

The Issues.

3. This suit was filed by plaintiff on October 13, 1965, for infringement of United States Letters Patent No. 2,954,073, entitled "Folding Tablet Arm Chair," issued on September 27, 1960 in the name of Bela B. Junkunc. On January 1, 1965, the entire right, title and interest in

and to the patent in suit (hereinafter sometimes called the Junkunc patent) was assigned to Bela Seating.

4. The case was tried on the issues presented by the Amended Complaint and the Amended Answer and Counterclaim. Defendant was charged with infringing claims 1 through 7, 10, 12, 14 and 15 of the Junkunc patent. Defendant denied validity and infringement and counterclaimed against plaintiff, charging violation of the antitrust laws.

5. Prior to trial, defendant moved for summary judgment on the ground that plaintiff had allegedly misused its patent by refusing to grant to defendant a license on the identical terms and conditions as are contained in a license previously granted to another company, Hampden Specialty Products Corp. Defendant's motion was denied.

6. The trial was extensive and thorough, continuing for a period of ten days in court. The record of testimony and argument is almost 2,000 pages in length. These Findings of Fact represent a thorough study of the evidence and are based on the most credible evidence.

* * * * *

Allegations of Misuse of Patent
and Antitrust Violations Are
Without Merit.

93. Plaintiff has granted licenses under the patent in suit to Clarin Manufacturing Co. (Clarin) and Hampden Specialty Products Corp. (Hampden). The license to Clarin, dated September 4, 1964, is royalty-free, and superseded a previous license given to Clarin in settlement of a lawsuit which was brought by Clarin against plaintiff. The license to Hampden executed on March 9, 1962 involves a royalty rate of 17½ cents per chair, which is considered by plaintiff to be unreasonably low and Mr. Junkunc, the president of plaintiff, regrets having granted this license.

94. Wishing to take advantage of plaintiff's past action

in granting Hampden a license with a royalty rate of only 17½ cents per chair, the defendant requested a license from plaintiff "on the identical terms and conditions that were extended to Hampden." Plaintiff refused this request. On March 16, 1967, plaintiff offered defendant a license at a royalty of $1.60 per chair. This was meant as a starting figure, and prior to trial the proposed rate was reduced by plaintiff to 75 cents per chair. At 75 cents per chair, plaintiff's proposed royalty rate is less than seven percent of the price of defendant's accused chairs to dealers.

95. In the Hampden license, the parties agreed that in manufacturing chairs embodying the licensed invention, the respective parties "shall utilize their own designs," and the chairs of the one party shall not be "identical in design to those being manufactured by the other party." Plaintiff conditioned its offer of a license to the defendant on the condition "that the chairs manufactured by Poloron shall be the same as or similar to the chairs currently manufactured by it."

96. Much time preparing for the trial and at the trial was taken up in connection with defendant's charge that plaintiff had misused its patents and violated the antitrust laws because (a) plaintiff refused to grant defendant a license with the same royalty rate as the rate granted more than six years earlier to Hampden; (b) because of Hampden's expressed concern about charges of infringement from both plaintiff and Clarin, plaintiff, Clarin and Hampden had some joint license negotiations (although they finally executed separate licenses); (c) plaintiff's license offer to Poloron required that Poloron chairs made under the license "be the same as or similar to the chairs currently manufactured by it"; and (d) plaintiff brought this lawsuit against defendant without first offering defendant a license.

97. All of plaintiff's licensing practices and other actions in connection with the patent in suit are clearly reasonable and legal practices.

98. Defendant did not bother to take market surveys with respect to its charge. Defendant itself suggested a settlement with plaintiff which contemplated a reduced allocation of royalty payments to plaintiff because of defendant's concern about a possible charge of infringement against it by Clarin, just as Hampden had suggested to plaintiff six years before. These facts, taken together with the extreme lack of substance in the arguments presented by defendant in support of its patent misuse and antitrust charge, show that defendant was not really serious in its misuse and antitrust charge against plaintiff.

99. Each of the parties filed a brief directed solely to the antitrust issues of this lawsuit. The briefs of counsel, together with the evidence in the record, clearly establish that the plaintiff has not misused its patent and has not violated the antitrust laws, and that defendant's counterclaim with regard to alleged antitrust violations is groundless.

The Royalty Rate.

100. Mr. Junkunc, president of plaintiff, testified that plaintiff considers it was a mistake to have granted Hampden a license at such a low royalty rate.

101. Although the defendant has asserted that the $1.60 per unit royalty originally requested by plaintiff "would make Poloron's chair impossible to sell," this assertion was not proved by defendant, and in any event it is clear that $1.60 was only a starting figure for negotiations. The evidence indicates that plaintiff is justified in seeking a much higher royalty rate than the 17½ cents royalty rate of the Hampden license. It would be economically deleterious to plaintiff's business to grant to Poloron a license at a royalty rate of only 17½ cents per chair.

102. To force plaintiff to grant a license to defendant at such a royalty rate would effectively be to create a system of compulsory licensing.

The Restriction as to Form.

103. Plaintiff has the right to limit its licenses to a specific form or forms of the invention, and to agree itself to forego manufacture of a specific form or forms of the invention. The devices to which the respective restrictions apply are covered by the patent, and such restrictions are reasonable as steps adapted to maintain individuality between manufacturers with respect to the designs of their respective chairs.

104. All the restrictions in defendant's licenses relate to chairs covered by the patent in suit. Defendant has not shown in any way that any of the restrictions are outside of the scope of plaintiff's patent monopoly.

Lawsuit Prior to License Offer.

105. Plaintiff has the right to sue Poloron for infringement without first offering Poloron a license. In its post-trial brief of the antitrust issues, the defendant has made the argument that the mere bringing of the present lawsuit, coupled with the demand that the defendant cease production of its infringing chair, was a misuse of the plaintiff's patent. The patent system of the United States would be of little value if a patent owner could not legally couple the bringing of an infringement suit with a demand that the accused infringer cease production of the infringing article.

The Relevant Market.

106. In many cases a customer who is in the market for folding tablet arm chairs will consider both (a) a fold-

ing chair having a tablet arm which folds only cooperatively with the seat and (b) a folding chair with an out-of-the-way position. The customer might also be interested in (c) a non-folding or stationary-type chair having a tablet arm which folds down alongside the chair into an out-of-the-way position, or (d) a non-folding chair with a fixed tablet arm.

107. The determining factors as to which type of chair is selected are (a) the function or desirability of the unit, (b) the budget which is available to purchase the unit, and (c) the delivery time involved. Mr. Becker, vice president of defendant, pointed out that a chair in which the tablet arm folds only cooperatively with the seat will often be sold in preference to the accused chair "primarily because of price and delivery and primarily because they find it will meet the function that they need a folding tablet arm chair for, or a tablet arm." Mr. Stace, vice president of plaintiff, pointed out that a non-folding chair might sometimes be preferred over a folding chair.

108. One type of tablet arm chair, whether folding or not, can be submitted for another type of tablet arm chair in almost any situation, if budget or delivery considerations, or both, call for it. It is only if one assumes that some purchasers have a wholly fixed and inflexible need, that he must conclude that those purchasers will not accept any substitutions. There is no evidence as to how many customers have inflexible chair requirements, and the uncontroverted testimony of Mr. Stace indicates that one type of chair is commonly submitted for another.

109. It is only in a music room that it is very important to have a chair in which the tablet arm can fold to an out-of-the-way position, and a music department of a school is only one aspect of one type of purchaser. Moreover, a music department could obviously use a stationary chair with a tablet arm that folds to an out-of-the-way position.

110. The evidence clearly establishes that the true definition of the relevant market is all chairs with tablet arms. Applying this definition of the relevant market, the uncontroverted testimony of Mr. Stace shows that plaintiff's sales comprise at the most only five to ten percent of the market. Plaintiff obviously does not come close to having a controlling share of the market.

111. The evidence clearly indicates that it is not "essential" that a chair manufacturer be able to make plaintiff's patented chair. Plaintiff is only a minor member of the tablet arm chair industry, despite the fact that it is the owner of the patent in suit. Not all members of the tablet arm chair industry sell chairs made in accordance with the patent in suit.

112. The evidence makes it clear that plaintiff is lawfully seeking to control products made according to plaintiff's own patent. There is no evidence whatsoever that plaintiff is seeking to control the entire market in chairs having tablet arms, and in fact, the uncontroverted evidence is clear that plaintiff has only a small share of that market.

113. Poloron has forced Bela Seating into a long battle against Poloron to enforce the Junkunc patent. This fact has nothing to do with an alleged anti-competitive intent on the part of plaintiff, but arises solely from the unnecessary multiplicity of defenses presented by defendant in the instant lawsuit.

114. Any Finding of Fact entered herein which may be properly construed in whole or in part as a Conclusion of Law shall be so deemed and treated as if set forth under Conclusions of Law.

CONCLUSIONS OF LAW.

1. Any Conclusion of Law entered herein which may be construed in whole or in part as a Finding of Fact shall

be so deemed and treated, as if set forth above under Findings of Fact.

JURISDICTION AND VENUE.

2. This Court has jurisdiction over the parties to this suit and the subject matter of this suit, including amended answer and the amended counterclaim.

3. Venue is properly laid in this District.

FACTS ALLEGED.

4. Plaintiff is the owner of United States Letters Patent No. 2,954,073, entitled "Folding Tablet Arm Chair," which was duly and legally issued on September 27, 1960 to Bela B. Junkunc. Plaintiff has the right to sue for infringement and to seek an injunction against future infringement.

5. Plaintiff has proved the essential facts alleged in the amended complaint.

6. Defendant has failed to prove the essential facts alleged in the amended answer and counterclaim.

* * * * *

ALLEGED PATENT MISUSE AND ANTITRUST VIOLATIONS.

35. The evidence clearly indicates that the plaintiff has not misused its patent, and has not violated the antitrust laws of the United States.

36. Plaintiff has no duty to grant a license to defendant under the patent in suit, merely because defendant has requested such a license. A patent owner has the right to grant a license to some, as he chooses, without granting a license to others. *Extractol Process* v. *Hiram Walker & Sons,* 153 F. 2d 264, 268 (7 Cir., 1946); *Radio Corporation* v. *Hygrade Sylvania Corporation,* 10 F. Supp. 879, 882-3 (D. N. J., 1934).

37. A patent owner is not required to grant licenses to all comers at equal rates and terms. He may select or reject prospective licensees and prefer one over another for considerations within his discretion. *United States* v. *Huck Manufacturing Company,* 227 F. Supp. 791, 800, 803, 804 (E. D. Mich., 1964), aff'd per curiam 382 U. S. 197, 15 L. Ed. 2d 268 (1965); *United States* v. *E. I. Du Pont De Nemours & Co.,* 118 F. Supp. 41, 224 (D. Del., 1953), aff'd 351 U. S. 377, 100 L. Ed. 1264 (1956).

38. Although plaintiff need not justify different royalty rates among different licensees, plaintiff has shown that it was a mistake to grant Hampden a license at such a low royalty rate and plaintiff is not required to make the same mistake again. An owner of a patent may grant licenses to manufacture, use or sell upon conditions not inconsistent with the scope of the monopoly. *General Talking Pictures Corporation* v. *Western Electric Company,* 304 U. S. 175, 181, 82 L. Ed. 1273 (1938).

39. A patent owner who grants a license under his patent may restrict the licensee's product which falls under the licensed patent to a specific use or to a specific form. *General Talking Pictures Corporation* v. *Western Electric Company,* 304 U. S. 175, 181, 82 L. Ed. 1273 (1938); *Vulcan Mfg. Co.* v. *Maytag Co.,* 73 F. 2d 136, 138-9 (8 Cir., 1934); *Reliance Molded Plastics, Inc.* v. *Jiffy Products,* 215 F. Supp. 402, 408-9 (D. N. J., 1963); *Harte & Co., Inc.* v. *L. E. Carpenter & Co.,* 138 USPQ 578, 583-4 (S. D. N. Y., 1963); *Atlas Imperial Diesel Engine Co.* v. *Lanova Corporation,* 79 F. Supp. 1002, 1003-4 (D. Del., 1948). Plaintiff clearly had the right to restrict Hampden to the Manufacture of chairs of Hampden's own design, and also to restrict defendant Poloron, if the latter accepted a license, to chairs which are "the same as or similar to the chairs currently manufactured by it."

40. Plaintiff had the right to restrict itself from making a chair identical in design with the chair being made by Hampden. Such a restriction embraces articles which fall within the scope of the patent in suit and has an effect that is similar to an exclusive license to Hampden to make chairs of its own design. *Rail-Trailer Co.* v. *ACF Industries, Inc.,* 358 F. 2d 15, 16-17 (7 Cir., 1966); *Brownell* v. *Ketcham Wire & Mfg. Co.,* 211 F. 2d 121, 129 (9 Cir., 1954); *E. Bement & Sons* v. *National Harrow Co.,* 186 U. S. 70, 94, 46 L. Ed. 1058 (1902).

41. All of the restrictions in plaintiff's licenses to Clarin and Hampden are reasonable and are within the scope of the patent monopoly.

42. A patent owner has the right to bring an infringement suit against an infringer without first offering the infringer a license.

43. Defendant has not met its burden of proof that any of plaintiff's actions are in restraint of trade or commerce and violative of Sec. 1 of the Sherman Act (15 U. S. C. Sec. 1).

44. Defendant has failed to prove that plaintiff has done anything that goes beyond the scope of the original patent monopoly. Hence, defendant's charges of violation of Sections 1 and 2 of the Sherman Act (15 U. S. C. Secs. 1 and 2) must fail.

45. Plaintiff does not control a "relevant market", nor has defendant shown that plaintiff has or ever had any unlawful intent to monopolize. These facts were matters that defendant was required to prove if it was to support its charges of violation of Section 2 of the Sherman Act. *Times-Picayune Publishing Co.* v. *United States,* 345 U. S. 594, 626, 97 L. Ed. 1277 (1953); *United States* v. *Aluminum Co. of America,* 148 F. 2d 416, 432 (2 Cir., 1945).

46. Since plaintiff's sales comprise at the most only five to ten percent of the true relevant market of all chairs with tablet arms, plaintiff does not have the monopoly power that is required for violation of Section 2 of the Sherman Act.

47. Defendant's counterclaim charging violation of the antitrust laws has no basis in fact or in law. Defendant knew or should have known this, and its charge of antitrust violations against plaintiff was unreasonable and has required plaintiff to expend much time in defending this charge.

RELIEF TO WHICH PLAINTIFF IS ENTITLED.

48. Plaintiff is entitled to a permanent injunction restraining the defendant, its officers, agents an employees, and all persons controlled by or acting in concert or association with defendant, from further infringement of United States Letters Patent No. 2,954,073, and from further making, using, offering for sale or selling devices embodying the invention described and claimed in said patent.

49. Plaintiff is further entitled to an accounting of damages arising by virtue of the infringement by defendant of United States Letters Patent No. 2,954.073 and for interest thereon. This cause should be continued with respect to the accounting issues pursuant to Rule 42(b) of the Federal Rules of Civil Procedure.

50. Plaintiff is entitled to an award of costs with respect to the issues of patent validity and infringement and the antitrust counterclaim.

ENTER:

/s/ R. B. AUSTIN,
United States District Judge.

Date: December 23, 1968.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1970.

No. 1612

POLORON PRODUCTS, INC.,
Petitioner,

vs.

BELA SEATING COMPANY, INC.,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

JAMES W. CLEMENT,
1825 Prudential Plaza,
Chicago, Illinois 60601,
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THE GUNTHORP-WARREN PRINTING COMPANY, CHICAGO

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1970.

No. 1612.

POLORON PRODUCTS, INC.,

Petitioner,

vs.

BELA SEATING COMPANY, INC.,

Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

Respondent, Bela Seating Company, Inc., respectfully submits this brief in opposition to the petition of Poloron Products, Inc. in which Poloron prays that this Honorable Court issue a writ of certiorari to review the judgment of the United States Court of Appeals for the Seventh Circuit entered herein on January 25, 1971.

OPINIONS BELOW.

The statements in the petition concerning the opinions below are correct.

JURISDICTION OF THIS COURT AND DISTRICT COURT.

The statement in the petition concerning the jurisdiction of this Court is correct.

The United States District Court for the Northern District of Illinois had jurisdiction of the complaint filed in that court under Title 28, United States Code, Section 1338(a) and Title 35, United States Code, Section 281.

QUESTIONS PRESENTED FOR REVIEW.

Petitioner's statement of the first question it seeks to have this Court review is adequate.

The statement of the second question petitioner seeks to have reviewed is argumentative in its inclusion of the terms "to discriminate" and "undifferentiable." A more accurate and non-argumentative statement of this question is:

> 2. Should a patent owner who manufactures and sells products covered by his patent, and has granted one non-exclusive license to manufacture and sell products covered by the patent, be compelled to grant *identical* non-exclusive licenses to *all others who ask for such licenses?*

CONSTITUTIONAL PROVISION AND STATUTES INVOLVED.

The applicable Constitutional provision and statutes are correctly set forth in the petition.

STATEMENT OF THE CASE.

The statement of the case included at pages 4 to 7 of the petition is correct as far as it goes. However, for completeness, certain additional findings of fact made by the District Court that bear on the questions raised by petitioner should be noted.

Thus, as to respondent's right to ask different royalty rates from different licensees, the trial court found that:

> "The evidence indicates that plaintiff is justified in seeking a much higher royalty rate than the 17½ cents royalty rate of the Hampden license" (Finding 101, Petition 16a).

And, with respect to respondent's right to limit its licenses to a specific form or forms of the invention, and to agree to forego manufacture itself of a specific form or forms of the invention, the trial court found:

> "The devices to which the respective restrictions apply are covered by the patent, and such restrictions are reasonable as steps adapted to maintain individuality between manufacturers with respect to the designs of their respective chairs" (Finding 103, Petition 17a).
>
> "All the restrictions in [plaintiff's] licenses relate to chairs covered by the patent in suit. Defendant has not shown in any way that any of the restrictions are outside of the scope of plaintiff's patent monopoly" (Finding 104, Petition 17a).

REASONS FOR REFUSING THE WRIT.

A. AS TO QUESTION 1.

There Is No Conflict Between Courts of Appeals of Different Circuits.

McCullough v. *Kammerer Corp.*, 166 F. 2d 759 (9 Cir., 1948), is cited by petitioner in an attempt to show a conflict between the Seventh and Ninth Circuits with respect to Question 1 (Petition 8-9, 12, 14). The facts of that case were, however, entirely different from the case at bar, for the vice there was that the license agreement attempted to prevent both licensor and licensee from dealing in devices—whether unpatented or covered by some other patent—that *were not covered by the licensed patent.*

Exclusive licenses—which exclude the licensor from doing business in any way with products or devices *covered by the licensed patent*—are of course perfectly proper, and are in wide use.* *Rail-Trailer Co.* v. *ACF Industries, Inc.*, 358 F. 2d 15, 16-17 (7 Cir., 1966). It was the attempt to limit the licensor and licensee with respect to devices *not covered by the licensed patent* that was stricken down in *McCullough.***

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*The *Report of the Attorney General's National Committee to Study the Antitrust Laws* (March 31, 1955), which is one of the authorities cited by petitioner itself (Petition 8), states that "an exclusive license by necessary implication includes a foreclosure of the patentee himself from the use of the invention" (*Report* 238). The Attorney General's Committee characterized such a restriction on an exclusive licensor as being "proper as reasonably ancillary to the rights the patentee has conveyed" (*ibid.*).

**This is precisely the interpretation given *McCullough* by the Attorney General's National Committee to Study the Antitrust Laws in the report cited by petitioner (*id.* 239).

Petitioner's first statement quoted from the *McCullough* opinion in support of its argument (near the bottom of page 8 of its petition) is quoted out of context, and fails to take into account the fact that when the Court of Appeals for the Ninth Circuit spoke of "competitive cutters" it is clear beyond any question from the context of the whole opinion that it meant pipe cutters *other than those covered by the licensed patent.**

The second quotation from the *McCullough* opinion, which is referred to twice by petitioner in support of its argument on this point (Petition 8, 12), is only a portion of a sentence and thus is also taken out of context. Even the complete sentence can be understood only if it is read in the light of the opinion in *Scott Paper Co.* v. *Marcalus Manufacturing Company,* 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), from which it was derived. Read in that light, the sentence in question from the *McCullough* opinion is seen to mean simply that the public interest requires that *in the absence of a valid patent covering particular articles,* no person may by contract bind himself not to make, use or sell such articles, and hence an assignor cannot by contract "bind himself not to defend such creation of goods on the ground that the patent he has purported to license is invalid because anticipated by a valid but expired patent" (166 F. 2d at 762). (In this connection,

* Section 11 of the license agreement sought to prohibit the licensee from doing business with "any device which will be *in competition with* the device or devices covered by this license agreement." Section 12 sought to prohibit the licensor from doing business not only (1) with "the device or devices covered by this agreement" (in other words, the license was sole and exclusive), but also (2) with "devices which will come or be *in competition with* the device or devices covered by this agreement." Referring to Sections 11 and 12, the Court said:

> "These covenants extend the monopoly of the patent by preventing competition with the patent of any *other* pipe cutter, patented or unpatented. . . ."

(See 166 F. 2d at 760; emphasis supplied.)

see 326 U. S. at 255-257.) Since there is a valid patent in the instant case (a holding now accepted by petitioner), the *Marcalus* decision and the reliance thereon in *McCullough* have no relevance here.

The *McCullough* case, involving attempted restrictions on licensor and licensee with respect to competitive pipe cutters *not covered by the licensed patent,* was correctly decided by the Court of Appeals for the Ninth Circuit. Likewise, the instant case, involving restrictions relating only to folding tablet arm chairs *covered by the licensed patent,* was correctly decided by the Court of Appeals for the Seventh Circuit. Contrary to the assertion of petitioner, there is no conflict as to Question 1 between the Seventh and Ninth Circuits.

There Is No Conflict Between the Decision of the Court Below and Applicable Decisions of This Court.

There is also no conflict between the way the Court of Appeals for the Seventh Circuit decided Question 1 presented for review here, and the applicable decisions of this Honorable Court. Petitioner's arguments on this point have two basic fallacies.

a. Petitioner Relies Solely on Dicta, Without Reference to Actual Holdings.

Petitioner's arguments overlook altogether the actual holdings of the decisions on which those arguments are based. Petitioner does no more than quote dicta from a variety of cases, without any reference at all to the facts involved in those cases.

Stated another way, petitioner in its arguments fails to recognize that the decisional law of patent misuse has been developed by this Court and other courts on a case-by-case

basis. The development of the judicial doctrine of patent misuse has come through specific holdings in particular cases,* not from broadly stated general principles.

Petitioner refers dramatically to "this Court's broad pronouncements" (Petition 7), "this Court's generalized rule" (Petition 8), "the general rule of law established by this Court" (Petition 9), "public policy as enunciated by this Court" (Petition 9), and "this [Court's] sweeping policy" (Petition 10), as if such broadly phrased principles could decide specific cases. When the authorities relied on by petitioner are examined, it is seen that each case is wholly unlike the case at bar, can readily be distinguished on its facts, and is thus in no way inconsistent with the decision of the Court of Appeals below.

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* It is for this reason that 35 U. S. C. § 271(d), referred to briefly by petitioner (Petition 9, 10), is wholly irrelevant here. Unless a particular licensing practice is of a type that has previously been characterized as a patent misuse by court decision, there is no need to ask whether it may come under any exceptions that are established by statute.

Section 271(d) of the Patent Act was enacted because a certain license provision, that had been relied on by a patent owner in an effort to prevent what it considered to be contributory infringement, had been declared by the courts to create a patent misuse, *Mercoid Corporation* v. *Mid-Continent Investment Company*, 320 U. S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944), and it was not clear from subsequent court decisions what the proper scope of that new misuse doctrine was. The Report of the House Committee on the Judiciary (82nd Congress, House Report No. 1923, May 12, 1952) concerning H.B. 7794—the bill that was enacted into the Patent Act of 1952—says of Sections 271(b) through (d):

> "Paragraphs (b), (c) and (d) relate to the subject referred to as contributory infringement. * * * Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the courts in recent years. The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion."

(P. J. Federico, "Commentary on the New Patent Act," 35 U. S. C. A. 1, 8, 51-52.)

The instant case does not, of course, involve any question of contributory infringement, and hence Section 271(d) is altogether irrelevant on the issue presented here.

In *Mercoid Corporation* v. *Mid-Continent Investment Company, supra* (Petition 7, 8, 10), for example, the vice was the unlawful conditioning of a sublicense grant on the purchase of an *unpatented* switch. In contrast, the restrictions complained of by petitioner here concern only products falling *within the scope of the patent.*

What this Court acted against in *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 62 S. Ct. 402, 86 L. Ed. 363 (1942) (Petition 6, 8) was a licensor's attempt to utilize the patent monopoly in a certain machine to drive *unpatented* competing goods (*i.e.*, unpatented materials for use with the patented machine) from the market through a tie-in requirement. No such fact is present here.

In *United States* v. *Univis Lens Co., Inc.*, 316 U. S. 241, 62 S. Ct. 1088, 86 L. Ed. 1408 (1942) (Petition 8, 12, 13), a patent owner tried to retain control over its goods after they had been sold. There is nothing like that fact in the instant case.

Petitioner seeks to stretch this Court's holdings in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964), and *Compco Corp.* v. *Day Brite Lighting, Inc.*, 376 U. S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964) to encompass the present case (Petition 13). But those cases did not involve licenses at all—merely third parties who copied devices that were protected neither by a valid patent nor copyright.

In *United States* v. *Associated Patents, Inc.*, 134 F. Supp. 74 (E. D. Mich., 1955), aff. per curiam *sub nom. Mac Investment Co.* v. *United States*, 350 U. S. 960, 76 S. Ct. 432, 100 L. Ed. 834 (1956) (Petition 15), one of the many violations was that the members of Associated Patents, Inc. "arrived at a general unwritten agreement not to compete in the manufacture of machine tools *irrespective of whether or not API patents were utilized*" (134 F. Supp.

at 80; emphasis supplied). In contrast to this, in the case at bar the license conditions concerning the design of the patented article are effective only as to chairs *covered by the claims of the patent in suit.*

b. Limitations on Form of Patented Invention Are Neither an "Extension" of the Patent Right Nor a Condition Imposed Outside the Patent Grant.

There is a second fallacy in petitioner's arguments on Question 1. The fact is that limitations on the form in which the licensor and licensee may produce the patented folding tablet arm chair are in any event neither an *extension* of the patent right nor conditions imposed *outside* the patent grant, as petitioner argues, but are instead merely a granting of a *partial* exclusive license.

A license, as even petitioner recognizes (Petition 3, 7, 13-14), is nothing but a waiver of the patentee's "right to exclude others from making, using, or selling the invention." 35 U. S. C. § 154. Thus, what respondent does in the licenses it enters into is to effect a *partial* waiver of its right to exclude others, or in other words grant a *partial* immunity from suit. It waives its patent rights as to folding tablet arm chairs of a certain design (*i.e.*, the licensee's design), but it does not waive its rights as to other chairs *which are covered by its patent and are of a different design.*

The acceptance by the licensee of a restriction on the form of the patented product it is licensed to make is but the "other side of the coin" from the licensor's agreement to a *partial* waiver, or granting of a *partial* immunity from suit. It follows, therefore, that respondent is not exercising an *"additional"* right, as petitioner has argued (Petition 13), in imposing such restrictions on its licensees. On the contrary, respondent is actually exercising *less than its full statutory right,* for it is excluding its licensees only

from making certain forms of the patented chair (*i.e.*, designs of others), while *permitting them to make other forms of the patented structure* (*i.e.*, their own designs). Thus, such restrictions on *licensees* are entirely proper under any reading of the decisions of this Court.

With regard to a *licensor*, this Court long ago settled in the affirmative the question as to whether a patent owner may validly restrict himself by limiting his freedom of action with respect to certain forms of his patented invention. This Court held in *E. Bement & Sons* v. *National Harrow Company*, 186 U. S. 70, 94, 46 L. Ed. 1058, 1070 (1902) that it is entirely proper for a licensor to agree not to grant to any other person except a particular licensee the right to manufacture or sell licensed articles "*of the peculiar style and construction then used or sold by the* [*licensee*]." As this Court pointed out in its *Bement* opinion, such an action by the patent owner was "nothing more in effect than an assignment or sale of the exclusive right [in today's terminology, an exclusive license] to manufacture and vend the article." (186 U. S. at 94; emphasis supplied.)

The restriction respondent has accepted here is actually of lesser scope than the restriction in *Bement*, since it must be assumed that the exclusion of a patentee's manufacturing capacity (as here) with respect to a certain design of chair would have a smaller impact than the exclusion of all the manufacturing capacities of a number of potential licensees (as in *Bement*) with respect to that same design. And of course the restriction on respondent here in any given *partial* exclusive license is of very much smaller scope than would have been the case had it granted a *full* exclusive license to a single licensee.

Since the license restrictions on licensor and its licensees about which petitioner complains cannot properly be considered to be either extensions of the patent right or conditions outside the grant of the patent, the decision of the

Court of Appeals below as to Question 1 was clearly *not* in conflict with any cases previously decided by this Court, whether one looks at the actual holdings or at dicta in those cases.

B. AS TO QUESTION 2.

There Is No Conflict Between Courts of Appeals of Different Circuits.

In support of its argument as to Question 2, petitioner asserts that the decision of the Court of Appeals for the Seventh Circuit in the instant case is in "direct conflict" with the decision of the Court of Appeals for the Fifth Circuit in *La Peyre* v. *Federal Trade Commission*, 366 F. 2d 117 (1966) (Petition 16-18). This assertion is incorrect.

The *La Peyre* case involved a planned program of discriminatory leases of shrimp peeling machinery, with different rental rates depending solely on territory. That program tended to cripple and destroy a major geographical segment of the shrimp peeling industry, since use of the patented machinery became industrywide because it was necessary to have that particular machinery in order to stay in the shrimp peeling business (366 F. 2d at 119-120). The decision in that case is obviously inapplicable to the present case, where there is no geographical discrimination of any kind, and it is not essential that a chair manufacturer be able to make plaintiff's patented chair (Finding 111, Petition 19a).*

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* *Laitram Corporation* v. *King Crab, Inc.*, 244 F. Supp. 9 (1965) is a case decided by the *District* Court of Alaska, but it is nevertheless cited by petitioner (Petition 16-17) for the apparent purpose of establishing the existence of a conflict between decisions of various Courts of Appeals. Even if it were pertinent, the *Laitram* case arose on the same set of facts as the *La Peyre* case, and must thus be distinguished from the case at bar on the same basis (244 F. Supp. at 17).

Petitioner also cites *Allied Research Products, Inc.* v. *Heatbath*

Since the *La Peyre* decision and the decision of the Court of Appeals below are clearly distinguishable on their facts, there is no conflict between the Fifth and Seventh Circuits on Question 2.

There Is No Conflict Between the Decision of the Court Below and Applicable Decisions of This Court.

Petitioner's argument that the decision of the Court of Appeals for the Seventh Circuit on Question 2 concerning which it seeks review was in conflict with the applicable decisions of this Court is in error in two respects.

a. Petitioner Again Relies Solely on Dicta, Without Reference to the Actual Holdings of the Cases It Cites.

Again, as with Question 1, petitioner does no more than quote dicta from several cases, without any attention whatsoever to the actual facts involved in the cases it cites.

Once more petitioner seems to feel it has established some kind of "conflict" with the decisions of this Court simply by referring to certain "general views" about competition (Petition 17), "general holdings" concerning competition (Petition 18), and a "general view" on "discrimination" and "restrictive conditions" (Petition 18) which are supposed to be held by this Court, while ignoring the troublesome detail that every case it cites is completely different from the case at bar on its facts.

The case of *United States* v. *Paramount Pictures, Inc.*, 334 U. S. 131, 68 S. Ct. 915, 92 L. Ed. 1260 (1948) (Petition 18), for example, concerns industrywide *price fixing* and is therefore completely inapplicable to the present case.

Corporation, 300 F. Supp. 656 (N. D. Ill., 1969), which was decided by another District Court Judge within the Seventh Circuit. But the refusal to follow a prior District Court decision on the part of the Court of Appeals of the very Circuit in which the District Court is located obviously does not indicate a conflict between Circuits that suggests the necessity of a review by this Court.

Petitioner apparently argues that in *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 65 S. Ct. 373, 89 L. Ed. 322 (1945), this Court prohibited discrimination between licensees in any and all situations (Petition 18). Such an interpretation of that case is wholly erroneous. In *Hartford-Empire* there was a patent pool (including over 800 cross-licensed patents) that effectually controlled the glassware industry and was used, among other things, for the allotting of production and maintenance of prices in that industry. (These antitrust violations are summarized at 323 U. S. 386, 400, 89 L. Ed. 322, 355.) Because of these very serious antitrust violations, compulsory licensing of certain patents by the defendants was required.* Such a fact situation is of course altogether different from the facts of the instant case.

Petitioner relies also upon the case of *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.,* 243 U. S. 502, 61 L. Ed. 871 (1917) (Petition 18-19), but that case is a classic case of patent misuse and is wholly irrelevant here. The patent in that case covered a motion picture film feeder which was made and sold by the plaintiff's licensee. Under the terms of the license, the licensee was required to attach plates to the device, which plates contained the conditions that the purchaser buy the machine for a certain price and then pay variable royalties thereafter. The purchaser was also required to use only films containing the invention of another of the plaintiff's patents in connection with the machine.

None of the cases just discussed actually stands for the proposition for which it is cited by petitioner.

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* A compulsory licensing provision is a requirement commonly imposed *after* a serious antitrust violation is found in a case involving misuse of patents, as for example in *United States* v. *National Lead Company,* 332 U. S. 319, 335-351, 67 S. Ct. 1634, 91 L. Ed. 2077, 2093-2101 (1947).

b. It Is Petitioner's Position, Not the Decision of the Court of Appeals Below, That Is in Conflict with Decisions of This Court.

The fact is that it is not the decision of the Court of Appeals in the present case that conflicts with any decisions of this Court, but petitioner's position itself that is in conflict with this Court's decisions.

If the law were as petitioner argues, a patent owner who mistakenly granted a license at too low a royalty rate early in the life of his patent, as respondent did here, would be *compelled* to grant later licenses at the same low rate. Similarly, a patent owner who deliberately granted a low royalty rate to his first licensee simply to get his licensing program "off the ground" would be *compelled* to grant later licenses at the same low rate even after he had succeeded in establishing the true value of a license under his patent for the particular industry to which it related.

For a patent owner to be *compelled* to grant a license at a lower royalty rate than he can get under all the circumstances of the market place is, under any ordinary meaning of the English language, a form of *compulsory* licensing.* Yet even petitioner would have to agree that the basic concept of compulsory licensing** has never been made a part of the patent system of this country. Thus, this Court said in *Hartford-Empire Co.* v. *United States, supra,* at 364:

> "Congress was asked as early as 1877, and frequently since, to adopt a system of compulsory licensing of patents. *It has failed to enact these proposals into law.*" (Emphasis supplied.)

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* The District Court so found. Finding 102, Petition 17a.

** That is, compulsory licensing *before* any antitrust violations or patent misuse have been found.

The granting of a non-exclusive license to one person and not to another, even without justification and reason, is an entirely conventional and legal practice that is wholly consistent with the scope of the patent monopoly. It has been so held by this Court and many other courts as well. *United States* v. *Huck Manufacturing Company,* 227 F. Supp. 791, 800, 803, 804 (E. D., Mich., 1964), aff. per curiam 382 U. S. 197, 15 L. Ed. 2d 268 (1965); *Extractol Process* v. *Hiram Walker & Sons,* 153 F. 2d 264, 268 (7 Cir., 1946); *American Equipment Co.* v. *Tuthill Building Material Co.,* 69 F. 2d 406, 408 (7 Cir., 1934); *Radio Corporation of America* v. *Hygrade Sylvania Corporation,* 10 F. Supp. 879, 882-883 (D. N. J., 1934). The logic of such a holding by this Court compels the conclusion that a fortiori a patent owner is not required to grant licenses to all comers at equal rates and terms, for to be denied a license altogether when others have been granted one is a greater denial than simply to be required to pay a higher royalty rate.

For the reasons given, there is no conflict whatsoever between the decision rendered by the Court of Appeals for the Seventh Circuit in the instant case and the applicable decisions of this Honorable Court.

CONCLUSION.

It has been shown with respect to both questions which petitioner seeks to have this Court review that there is neither conflict between decisions of different Circuits, nor conflict between the decision below and applicable decisions of this Court.

Indeed, it has been shown with respect to both Question 1 and Question 2 submitted by petitioner for review that, contrary to the assertions of petitioner, the decision of the

Court of Appeals for the Seventh Circuit in this case is entirely consistent with all applicable decisions of this Court.

For these reasons, the petition for issuance of a writ of certiorari to review the judgment entered herein by the United States Court of Appeals for the Seventh Circuit should be denied.

Respectfully submitted,

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